

Message Text

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ACTION EB-08

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C O R R E C T E D C O P Y (TEXT CORRECTED)

E.O. 11652: NA
TAGS: EFIN, ECON, JM
SUBJECT: MEETING IMF TESTS

1. ADDRESSING A MEETING OF THE ST. ANDREW ROTARY CLUB IN KINGSTON ON SEPTEMBER 12, MINISTER OF FINANCE ERIC BEEL EXPRESSED OPTIMISM ABOUT THE GOJ'S ABILITY TO SATISFY THE VARIOUS IMF TESTS OF SEPTEMBER 30. IN A DETAILED ACCOUNT OF HOW THE GOVERNMENT WAS MEETING THE FOUR TESTS, MR. BELL SAID THAT THE GOVERNMENT WAS WELL WITHIN THE LIMITS SET FOR THREE OF THEM: NET BANK CREDIT TO THE PUBLIC SECTOR, NET DOMESTIC ASSETS OF THE BANK OF JAMAICA, AND OUTSTANDING ARREARS. WITH RESPECT TO THE LATTER, JAMAICA HAS SUCCEEDED IN REDUCING ITS OUTSTANDING ARREARS FROM US\$80 MILLION LAST JUNE TO ABOUT US\$50 MILLION AT PRESENT. THE TARGET FOR SEPTEMBER 30 IS \$60 MILLION, SO THAT THE GOJ IS AHEAD OF SCHEDULE.

2. THE GOJ HAS A PROBLEM ONLY WITH RESPECT TO THE FOREIGN ASSETS TEST, BUT THE MINISTER SAID THAT WITHIN THE NEXT TWO WEEKS, JAMAICA SHOULD BE WITHIN THE LIMIT PRESCRIBED. HELP WILL COME FROM ANOTHER TRANCHE OF THE IMF LOAN WHICH IS TO BE DRAWN BY SEPTEMBER 15, WHILE THE BAUXITE COMPANIES HAVE AGREED TO PURCHASE THE SAME
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AMOUNT OF FOREIGN EXCHANGE AS LAST YEAR.

3. THE MINISTER COMMENTED THAT THE GOJ'S INCOMES POLICY HAS BEEN SUCCESSFUL SO FAR. WAGES AND INCOMES HAVE BEEN CONTAINED WITHIN THE LIMITS PRESCRIBED. DURING THE FIRST FOUR MONTHS OF THE GOJ-IMF PROGRAM, INDUSTRIAL DISPUTES AND DISLOCATIONS HAD BEEN NO GREATER THAN BEFORE.

4. MR. BELL ALSO NOTED THAT TAX COLLECTION IN JULY AND AUGUST WERE IN EXCESS OF THE TARGET. HE CRITICIZED "THE BARGINGERS OF DOOM" FOR SPREADING RUMORS THAT THE TAX COLLECTION TARGET OF J\$180 MILLION FOR THE FISCAL YEAR WAS NOT BEING MET.

5. MR. BELL ACKNOWLEDGED TWO WEAK SPOTS IN THE ECONOMIC PICTURE: THE CONSTRUCTION INDUSTRY WAS IN THE DOLDRUMS; AND THE MANUFACTURING SECTOR WAS SUFFERING BECAUSE IT WAS NOT RECEIVING THE FOREIGN EXCHANGE FOR THE RAW MATERIALS IT REQUIRED. WHILE SOME OF THE ARREARS IN FOREIGN DEBTS HAD BEEN PAID, THIS WAS NOT ENOUGH TO FREE UP CREDIT FOR SOME OF THE MANUFACTURERS.

6. MR. BELL NOTED IN CLOSING THAT THE FIRST PART OF THE PROGRAM HAD BEEN ACCOMPLISHED AND THAT THE GOVERNMENT WAS NOW WORKING ON THE SECOND PART WHICH AIMED AT INDUCING GROWTH.

7. COMMENT

A. DATA PROVIDED TO THE EMBASSY BY THE CENTRAL BANK ON A CONFIDENTIAL BASIS CONFIRMS MR. BELL'S PUBLIC STATEMENT ON THE GOJ'S POSITION WITH RESPECT TO THE IMF CRITERIA. THE GOJ IS COMFORTABLY WITHIN THE GUIDELINES SET FOR Z2-88, & -443-4, NET DOMESTIC ASSETS OF THE BOJ AND NET BANK CREDIT TO THE PUBLIC SECTOR; HOWEVER, THE BOJ IS TO REDUCE ITS NET FOREIGN LIABILITIES FROM US\$335 MILLION LIMITED OFFICIAL USE

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IN JUNE 30 TO \$300 MILLION ON SEPTEMBER 30; AS OF AUGUST 30, THE BOJ'S NET FOREIGN ASSETS STOOD AT MINUS \$331.5 MILLION. THEY MUST BE REDUCED BY SOME US \$31 MILLION BY SEPTEMBER 30. THE BOJ IS COUNTING ON THE NEXT IMF TRANCHE AND PAYMENTS BY THE BAUXITE COMPANIES TO PROVIDE THE RESOURCES TO ACCOMPLISH THIS.

B. WE CAN ALSO CONFIRM MINISTER BELL'S FAVORABLE VIEW OF THE LABOR SITUATION AND GOVERNMENT REVENUE COLLECTIONS DURING THE FIRST FOUR MONTHS OF THE PROGRAM. ON THE OTHER HAND, THE PRIVATE SECTOR COMPLAINS OF RISING COSTS, DECLINING SALES, SQUEEZED PROFIT MARGINS, SHORTAGES OF FOREIGN EXCHANGE TO MEET ESSENTIAL IMPORT REQUIREMENTS AND UNCERTAINTY WITH RESPECT TO GOVERNMENT INTENTIONS. THERE ARE AS YET NO SIGNS THAT THE GOVERNMENT'S GOALS IN THE AREA OF NEW EXPORT DEVELOPMENT, INVESTMENT AND GROWTH ARE BEING MET. IRVING

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